



May 7, 2010

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The Community Development Venture Capital Alliance (“**CDVCA**”) is pleased to provide comments as requested by the CDFI Fund (the “**Fund**”) on the Riegle Community Development and Regulatory Improvement Act of 1994 (the “**Statute**”). CDVCA is the association of community development venture capital (“**CDVC**”) funds, which are CDFIs and organizations that would qualify for certification, that provide venture capital equity financing to businesses in low income areas to create good jobs for low income people. CDVCA’s comments focus on the Community Development Financial Institutions (“**CDFI**”) Program, which provides financial and technical assistance to CDFIs that provide loans, investments, financial services, and technical assistance to underserved populations and communities.

We begin this letter with a few overarching comments that are better made out of the context of the specific questions presented. After that, our comments respond to the Fund’s questions in the same order they are posed. We have taken the opportunity to comment on matters that may be resolved through changes in regulations and policy, in addition to those requiring legislative changes.

CDVCA is a member of the CDFI Coalition. We participated in the development of the Coalition’s comments, and generally agree with them. Therefore, we have commented only in areas where the CDVC industry has particular concerns or information to contribute.

GENERAL COMMENTS

- In all of the Fund’s activities—including certification and the making and monitoring of awards—it should keep in mind that, while CDFIs share a common mission, the CDFI field is made up of five or more very different industries. The constituents of these industries (venture capital funds, banks, credit unions, loan funds, and microenterprise funds, at a minimum) are structured and operate very differently. In the non-CDFI financial sector, banks and venture capital funds, for example, are regulated and assessed by very different standards, and for the same reasons banks and venture capital funds in the CDFI field should be assessed in ways that take into account their distinct characteristics. To do this effectively, the Fund must not only adjust its standards, but also make an effort to build its capacity to understand and assess the various CDFI types

at all levels of the organization—from Advisory Board, to staff, to outside readers—and in all of its materials, including applications and monitoring systems.

- In all of the Fund’s activities, it should take into account the distinct characteristics of the various types of financing being offered. In particular, the fund should take into account the availability (or unavailability) of various types of capital in various geographic areas. The Supplementary Information to the Fund’s request for comment to which this letter responds states that “The CDFI Fund’s mission is to expand the capacity of financial institutions to provide credit, capital and financial services to *underserved* populations and communities in the United States” (emphasis added). The Fund tends to place a great deal of emphasis on various demographic characteristics of communities (poverty and unemployment rates, for example)—as it should—and also on the *general* lack of capital in a community, but we believe it does not distinguish sufficiently among various types of capital in assessing whether a community is “underserved.” For example, while mortgage loans may be hard to come by for low-income people in a particular community, they may be much more available than venture capital equity financing, which is often totally absent. Whether a community is underserved should always be viewed in the context of the particular type of financing being provided by a CDFI.
- A point related to the ones above is that the Fund should assess different types of CDFIs and different types of capital provided in the context of the characteristics of the community development impact being sought. For example, it might be quite important that a bank’s or credit union’s deposit services and savings opportunities for individuals be provided locally, perhaps within walking distance of the population to be served. However, labor markets are regional—most of us do not work within the local community in which we live. Therefore a CDFI such as a venture capital fund, whose mission is to create jobs, should not be held to as strict criteria regarding geographic location. In fact, we are familiar with cases in which a business would be in a low-income census tract if it were located across the street. Because labor markets are regional, this difference in location has no effect whatsoever on community economic development impact. In fact, the only effect of forcing a business to be located in a low income community may be to isolate it from markets and services, making it less likely to succeed and create large numbers of good jobs for its employees
- Functions that would be undertaken by one legal entity in, for example, a CDFI loan fund, are often undertaken by a family of related legal entities, in combination, in the venture capital context. For example, a traditionally structured CDVC firm may include a management company, multiple funds, and a not-for profit affiliate. The capital (and therefore the financing activity) may be in one or more funds, the personnel (and therefore most of the development services) would be provided by the management company, and the not-for-profit affiliate may provide other development services. We recommend that the Fund consider the entire family of entities to be “the CDFI” and that it make awards to whichever entity the CDFI requests. (For example, in some instances it might be appropriate for the award to be made to the fund, while in others it might be best for the award to be made to the not-for-profit affiliate.)

COMMENTS WITH RESPECT TO THE FUNDS' SPECIFIC QUESTIONS

A. COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

1. Community Development Advisory Board

Our main concern with respect to the Advisory Board is that it be representative of the various types of CDFIs. As discussed above, CDFIs share a common broad social mission, but they are in very different lines of work. It is important that at least some members of the Advisory Board have experience with and understand the venture capital industry. We also like having a representative of the SBA on the Advisory Board and urge the Fund to seek ways to collaborate with SBA.

B. COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS (CDFI) AWARDS

1. Definitions

(a) Are the definitions for low-income and targeted populations still viable? If not, what alternative definitions might be considered?

The definitions currently in use are adequate. Our primary concern is that the standards for documenting compliance be reasonable. In particular, proving that a CDFI serves a Targeted Population can be problematic, because it can be difficult, or even illegal, to inquire about the income of employees of a business. A standard such as whether a business has a significant number of entry-level employees should be used to determine whether a business serves a low-income Targeted Population.

(b) Should other definitions be added to the statute to ensure that CDFI awards target areas of “high” economic distress? If so, what criteria should be utilized?

We feel strongly that it would be a mistake to return to more stringent geographic targeting, such as Hot Zones. This is particularly true with respect to venture capital. Labor markets are regional. Simply locating a business in a highly distressed area does not mean that it will provide good jobs for low-income people, and area businesses that might not be located in a very low-income census tract may still provide large numbers of good jobs to low-income people. As noted above, to the extent that the level of economic distress is considered even informally in allocating awards, the relative availability of different types of capital should be taken into account.

(c) Are the definitions of “subsidiary” and “affiliate” still viable? If not, what alternative definitions might be considered?

As noted earlier, it is important that the Fund consider a CDVC fund with multiple related entities to be one “CDFI.” Whether this is best accomplished through a change in the definition of subsidiary and affiliate or in some other way, we will leave to the Fund’s attorneys. However, it is important that one legal entity that is part of the “CDFI” be permitted to use its award to

make an investment in another legal entity in the same family. For example, the not-for-profit affiliate of a CDVC fund should be able to receive an award and use it to make an award in an existing or new fund in the same family. This is currently prohibited by the Notice of Funds Availability in each funding round. So long as the recipient affiliate is a party to the Assistance Agreement with the Fund, it should not be more difficult to ensure compliance.

2. Certification

(a) Is the criteria established for CDFI certification adequate to ensure that only highly-qualified CDFIs obtain the certification? Should the CDFI Fund seek to only certify highly-qualified CDFIs?

Certification by the Fund should be based solely on whether a financial institution meets the requirements in the statutory definition of a CDFI. The interpretation of these criteria should be specific to CDFI type and the type of financing being provided, as discussed above. For example, it might be appropriate to interpret more strictly the requirement that a CDFI “serve” a targeted investment area, in terms of geographic scope, if the CDFI is a credit union providing personal loans than if it is a venture capital fund making investments in businesses to create jobs, because labor markets are regional.

(e) Currently, CDFI certification review does not entail an assessment of an organization’s underlying financial soundness. Should the CDFI Fund change that approach and require CDFIs to meet minimum standards with regard net asset ratio, net income, loan loss reserves, and operating liquidity?

We strongly oppose the consideration of financial soundness in the certification process. Being certified as a CDFI should indicate that a fund has a certain social mission, but not that it meets additional financial criteria. Making meaningful financial assessments for the broad diversity of CDFI types would be extraordinarily difficult, and in some cases impossible. For example, concepts such as net asset ratio, net income, loan loss reserves and operating liquidity are all virtually irrelevant or even meaningless when applied to venture capital funds. In fact, with regard to venture capital funds, it is virtually impossible to assess financial performance until after the fund is quite mature—at least seven or eight years old, if not older. Basic financial ratios applicable to other types of financial institutions typically look terrible when applied to VC funds because equity investments typically yield little if any current income until they are exited, while organizational and operational expenses are incurred from the inception of the fund. Therefore, VC funds appear to run at a “loss” throughout most of their existence, until they start realizing significant exits. The Fund should keep this difference in mind as well in establishing procedures and standards for making awards to and monitoring CDVC funds.

(h) Should the CDFI Fund require certified CDFIs to annually submit current information on financial viability and other data necessary to assess the financial condition and social performance of the CDFI industry?

No. As stated above, we do not think certified CDFIs should be required to submit information on financial viability, because, at least in the case of CDVC funds, such information would be meaningless and/or misleading.

3. Holding Companies, Subsidiaries and Affiliates

Please see concerns noted earlier regarding subsidiaries and affiliates.

4. Geographic and Institutional Diversity

(h) Should institutional diversity be a priority of the CDFI Fund?

The CDVC industry is severely underserved by the CDFI Fund. During the past five years, the CDVC industry has received only 1.9% of the dollars awarded by the Fund. Similarly, during that period CDVC funds received only slightly more than 2% of the number of awards; we received a total of 7 awards, while all other types of CDFIs received 329 awards for use with debt instruments. (Please note that these figures may differ somewhat from the Fund's internal figures. We believe that the Fund has counted some awardees as VC funds when they actually are more appropriately categorized in other industries. For example, we believe the fund categorizes awards to an intermediary organization that invests in development banks as a VC fund because it makes equity investments. It should be more appropriately categorized in the banking industry. Likewise, we believe a few loan funds have self-identified as venture capital funds, but the write-ups in the award listings published by the Fund indicate the awards were to be used for lending rather than equity investing.)

This low participation compares with an industry of 71 domestic CDVC funds currently managing \$2 billion. It is also important to put this in the context of current national priorities. The nation is suffering from a lack of jobs, and particularly good jobs in low-income communities. The primary mission of CDVC funds is to create good jobs for low-income people in and around low-income communities. There is no sector of the CDFI field that is more focused on the nation's most urgent priorities right now than CDVC funds.

The primary reason for the underrepresentation of CDVC funds among awardees is that in many cases CDVC funds are discouraged from applying to the Fund or even going through the CDFI certification process. This is true for several reasons:

- Because venture capital funds raise all of their capital at once, up front, they do not fit well with the Fund's process of making awards. The typical CDFI has a perpetual life and raises capital throughout its life. Such a CDFI can make numerous applications, updating and recycling those applications to reduce workload and using feedback on an unsuccessful application to improve the next one. While a single award may be only several hundred thousand dollars, a perpetual life CDFI can amass several million dollars of awards over its lifetime. Because CDVC funds raise all their funds at once, they are limited to a single application and, at best, a single award. CDVC funds often will not even take the "gamble" of applying, given the work involved in writing a first-time application.

- CDVC funds typically raise capital in the form of investments in limited partnership interests rather than grants. An equity investment is substantially less “valuable” to a CDFI than a grant, per dollar of award, because equity investments are paid back—often with substantial financial returns. The work involved in writing a CDFI Fund application may not be worth the effort for an uncertain chance of receiving an equity investment of several hundred thousand dollars, while it would be for the opportunity to receive a grant of that size.
- Because CDVC funds raise all their money up front, before beginning operations, they often have trouble scoring well in the “track record” portion of the application. This is particularly true for first-time funds that do not have predecessor funds under the same management.
- In general, CDVC funds (and, we believe, CDFIs in some other sub-sectors as well) often feel like a “square peg in a round hole” when filling out CDFI Fund applications. Fund feedback regarding applications that have been turned down similarly often displays a lack of understanding of the venture capital business on the part of CDFI Fund staff and outside readers. A number of CDVC funds have reported being discouraged from applying simply by reading the application materials. Even the language in CDFI Fund materials and press releases sometime refers to “loans” and “credit” but not “investments,” although the Fund has gotten better about this in recent years.

We agree with the CDFI Coalition’s comments with regard to treating different types of CDFIs appropriately, and will not repeat them here. We make the following additional recommendations:

- Allow *de novo* CDVC funds to use the track records of related organizations and of key personnel to augment the track record of the institution. Recognizing that the track record of a CDVC fund may be less extensive than that of a CDFI that applies to the Fund in multiple rounds, place more emphasis on the stated intention regarding targeting in such documents as private placement memoranda (which are legally binding under the securities laws).
- For CDVC funds that apply for awards only once, increase possible award sizes.
- As discussed more fully below, increase potential award sizes for CDFIs that request awards in the form of equity rather than grants.

Despite our concern about the small number of awards going to CDVC funds, we do not advocate numerical quotas for different CDFI types. The inequities in treatment of the various CDFI types and different types of CDFI capital are better addressed through a concerted effort on the part of the Fund to understand different types of CDFIs and the different forms of capital they provide, and to put that understanding into practice at all levels of the Fund’s operations.

(i) Should the CDFI Fund designate a specific amount of funding for regulated depository institutions separately from loan funds and venture

capital funds? If so, what proportion of the funding should be designated for CDFI banks and CDFI credit unions?

First, we do not understand why the distinction in this question is made between regulated depositories on the one hand and loan and venture capital funds on the other. If any distinction is to be made, it should be between CDFIs that are underrepresented in awards and those that are not. CDVC funds are among the most poorly represented awardees. If a system is to be designed to provide specific amounts of funding to particular CDFI types, then CDVC funds should be among those receiving such treatment.

However, as noted above, we do not support a quota system for awards but would prefer that the participation and success rates among CDVC funds be increased through improvements in the Fund's policy and practice.

(j) If a special amount is not designated, what can the CDFI Fund do to achieve institutional diversity?

Please see the discussion above and the CDFI Coalition's comments.

5. Financial Assistance

(c) Under the CDFI Fund's authorizing statute, the CDFI Fund has the authority to make long-term, low-interest loans to CDFIs, dependent on matching funds. Is there a need for a loan product in addition to the CDFI financial and technical assistance awards and its lending authority?

We believe it could be quite useful if the Fund could provide long-term debt to a CDVC fund to match equity invested. This would result in leverage for a fund somewhat similar to that provided under the SBA's Small Business Investment Company (SBIC) program, but with a focus on mission-driven CDVC funds. The provision of low-cost leverage would substantially increase the amount of private sector investment in the CDVC industry.

Such a program would probably require a legislative change. For it to be effective, the Fund would have to guarantee up front the provision of leverage, conditioned on raising the matching funds. This is the way the SBA operates the SBIC program. It gives a conditional license and accompanying promise of low cost debt leverage to the new SBIC, which the SBIC then uses to raise private capital. If the leverage were not guaranteed, it would be very difficult for the fund to raise the private capital.

(d) Is there a need for a CDFI federal loan guarantee and if so how would it be structured?

Leverage similar to that described in the comment above could presumably be incented with a loan guarantee, but direct lending would probably be more effective.

(e) Should a category be created specifically for CDFIs that serve a national market or are intermediaries? If so, what proportion of the appropriation should be allocated for such applicants?

For the same reason that it is important for the Fund to understand and accommodate various other types of CDFIs, the Fund should similarly understand and accommodate the special characteristics and needs of national intermediaries. In particular, we are concerned that the certification process as it currently operates seems designed with more local, direct providers of capital in mind, rather than national intermediary organizations.

Although CDVCA believes there should be no special set-asides for intermediaries or any other type of CDFI, there are particular reasons that an intermediary for venture capital funds may be necessary to allow the Fund's capital to flow effectively to the CDVC industry. As discussed above, the VC industry faces a unique challenge in accessing awards from the Fund, because most traditionally structured funds raise capital only once, up front. There are special vehicles called "sidecar" and "annex" funds that have been developed in the traditional venture capital industry to allow additional capital to be added to a fund or a fund family, without the necessity of raising an entirely new fund. These sidecar and annex funds require a great deal of ad hoc structuring and negotiation with current investors, which we believe the Fund is not well equipped to perform. The Fund could, however, provide wholesale capital to an intermediary organization, to perform that structuring and negotiation. This would be particularly important now, when 1) job creation is so vital to our nation, and 2) it is difficult or impossible for most CDVC funds to raise new capital, because market investors have become extraordinarily risk-averse. (And venture funds are unique among CDFIs in that capital they receive from exited investments in businesses is returned to their investors rather than being recycled into new investments in companies; therefore, many CDVC management groups that cannot raise additional funds in the next few years may be forced to disband, which would be a tragedy for the industry.) CDVCA would be happy to discuss with Fund staff how such an intermediary facility might work.

(f) Are there changes the CDFI Fund could make to the financial and technical assistance awards that would make it more accessible or beneficial to certified CDFI banks?

Again, we are unclear why CDFI banks have been singled out in this question as requiring special consideration. As noted throughout our comments, we believe there are a number of important changes to be made to the financial and technical assistance award process that would make them more accessible and beneficial to CDVC funds, which are severely underrepresented among the Fund's awardees.

(h) Should CDFIs be required to provide financial education to their customers; if so should there be a minimum level of education?

No. This question seems to be driven by issues most relevant to lenders, particularly lenders to individual customers. Lenders tend to make loans to large numbers of customers in high volumes. In this context, customer "education," which we understand to suggest some sort of standard educational products or classroom-style instruction, might be relevant. By contrast, a

CDVC fund typically makes only a few new investments per year and may invest in only ten to twenty companies in its entire life of ten to fifteen years. We provide capital to relatively sophisticated investees (business owners) in highly negotiated transactions, in which both sides are typically represented by legal counsel, accountants and often investment bankers or other consultants. Customer “education” in that context does not make sense.

6. Award Cap

(b) Should subsidiaries and affiliates have a funding cap that is separate from their parent CDFI?

In several cases, the formation of CDVC funds has been sponsored by an existing CDFI. The venture fund typically has separate staff, capital, and operations, although the “parent” might retain some measure of control and economic interest. We have found in those cases that the larger parent usually wants to apply for an award for its own purposes, leaving the venture fund unable to access the Fund’s programs. We suggest that this problem be addressed by allowing the affiliated CDVC fund (and this could presumably apply to CDFI types other than venture funds) to apply separately for CDFI certification and be treated as a separate CDFI. Some standards should be established for when an affiliate can apply for separate certification and awards. For example, a large loan fund that does some equity financing from its own capital pool should not be able to apply separately for awards for its equity investment activities. However, a venture capital fund whose formation was sponsored by a large CDFI loan fund, which operates separately, with its own staff and capital pool, should be allowed to apply separately, even if the loan fund “parent” retains some ownership interest in and/or control of the venture fund.

(c) Should the CDFI Fund make an award to only one affiliated organization during the same funding round?

No, for the reasons stated above.

(d) Is “\$5 million of assistance in total during any three-year period” too restrictive? If so, what are the alternatives, if any?

If the matching “type” requirement is not eliminated, as we advocate below, then the Fund should have a much higher cap and provide significantly larger awards to awardees requesting loans or equity investments rather than grants. Assuming loans and investments are repaid, the net cost to the government of these awards is substantially lower per dollar awarded than a grant, and they are less valuable to the awardee. In fact, an equity investment to a CDVC fund might well produce a significant profit to the government, rather than a net cost. Venture capital equity investments should be made in amounts at least four to five times as large as grant awards.

Even if the matching type requirement is lifted, the Fund should retain the flexibility to make loans and investments where appropriate. A grant to a venture capital fund can be a taxable event. Since traditionally structured funds are pass-through entities for tax purposes, such a grant could result in tax liability for investors, without capital distributions being available to pay

those taxes. For that reason, some CDVC funds might actually prefer an investment to a grant, despite the greater economic value of the grant, although we believe most will prefer the grant.

7. Matching Fund Requirements

(a) Does the dollar-for-dollar matching funds requirement restrict a CDFI's ability to apply for a financial assistance award? If so, what should be the matching funds requirement?

Removing the matching requirement would be among the most important and effective ways for the Fund to increase participation in its programs by CDVC funds. Since the matching requirement was removed temporarily, applications from CDVC funds have increased severalfold. This is true for at least two reasons. First, CDVC funds typically do not raise matching funds of any type after the formation of the fund. Second, at the beginning of the fund's life, when it is raising capital, the capital it raises is exclusively in the form of equity investments. A \$500,000 equity investment from the Fund is not nearly as valuable as a grant of the same size.

There are some additional types of capital that should be considered to provide an eligible match for CDVC funds:

- Return on investment. Unlike a loan, which produces income in small amounts throughout the life of the loan (interest), venture capital equity investments typically produce significant cash proceeds only at the time an investment is “exited”—e.g., when a company is sold or it has an initial public offering of stock. The excess of cash received over the amount of cash invested in a company is the return on investment, and should be eligible to count as matching funds for a CDFI Fund grant. For example, if a fund invests a total of \$1 million in a company and then receives \$1.5 million as a result of the sale of that company, then the \$500,000 difference should count as match. This is analogous to the opportunity afforded community development credit unions and other CDFIs to count retained earnings as matching funds. Unfortunately, retained earnings typically would not be a useful concept for a venture fund, because of the way in which it is structured—the return on a particular investment is the right concept in the venture fund context. There are two possible subcases of this proposed type of match.
 - The CDVC fund does not retain the proceeds of the investment, but rather returns them to investors. This would typically be the case in a traditionally structured fund. We acknowledge that this is the more difficult case to make, because the funds will not be directly reinvested back in the community. However, the return of capital to investors is crucial to the ability of a CDVC fund to raise additional capital in the future. This is the way a CDVC fund ultimately receives additional capital from investors to invest in low income communities. We recognize that this is a systemic, rather than a direct, mechanism, but we believe that, given the unique difficulties of CDVC funds in raising matching funds, it should be recognized. This might require a legislative change to implement.
 - The CDVC fund does retain the proceeds of the investment, and they are available to reinvest, provide development serves, and/or increase the financial strength of

the CDFI. We believe this is a relatively easy argument to make, analogous to counting retained earnings as matching funds. The Fund should adopt this policy immediately through amendment of its regulations and/or a change in its NOFA and application form.

- Capital calls. A traditionally structured CDVC fund receives all of its capital “commitments” up front, but then “calls capital” over time from its investors. The capital calls are the points at which new capital is actually paid into the CDVC fund and made available for investment. Those capital calls should be counted as eligible for match from the Fund. A problem remains that most traditionally structured CDVC funds are not set up to accept into the fund additional capital not contemplated by the original partnership agreement (e.g., from a CDFI award). With some creative structuring, this problem could be avoided by either 1) creating a sidecar fund to accept an award in the form of an equity investment, or 2) if the like-type requirement is eliminated from the match, then an affiliated not-for-profit could accept a grant.

(b) Should the matching funds continue to be restricted to comparable form and value or should any type and source of funding be allowed as matching funds?

If the matching fund requirement is not completely eliminated, as we advocate above, then at least the requirement that it be in comparable form and value should be. This would address the second problem identified above, but not the first. It would also make possible some of the creative structuring proposals discussed earlier.

(c) The statute provides certain exceptions to the matching funds requirement and provides the CDFI Fund the flexibility to reduce the match requirement by 50 percent in certain circumstances. Is this appropriate?

Yes, and these should be expanded as discussed below.

(d) The statute allows the applicant to provide matching funds in a different form if the applicant has total assets of less than \$100,000; serves nonmetropolitan or rural areas; and is not requesting more than \$25,000 in assistance. Should this provision apply to all applicants? Should the asset size and assistance request be increased?

We recommend that, in the absence of a full elimination of the matching requirement, that Section 108(e)(2) be amended to read as follows:

(2) EXCEPTION.—In the case of an applicant with constraints on availability of sources of matching funds, the Fund may permit an applicant to comply with the matching requirements of paragraph (1) by—

...

(B) permitting an applicant to provide matching funds in a form to be determined at the discretion of the Fund, if such applicant

...

; or (iv) makes investments in operating companies of the type typically provided by venture capital funds.

C. CDFI TRAINING

(a) Will the Capacity-Building Initiative, as currently structured, provide the training that CDFIs need to deliver financial products and services to underserved communities nationwide?

No. We feel the capacity building initiative did not distinguish appropriately among CDFI types. Implicit in the structure of the initiative is the assumption that CDFIs are substantially similar types of organizations, which face similar operational challenges and therefore need similar training. As discussed above, this is not the case. In fact, virtually the only characteristic that all CDFIs share is their use of financial tools to accomplish community development purposes—and even these purposes vary widely from job creation, to provision of housing, to provision of education by charter schools, to provision of savings opportunities by community development credit unions. Operationally, CDFIs have all the diversity of the myriad institutional types in the private sector. In the private sector, one does not observe joint training for banks, venture capital funds, and mezzanine debt funds, and it makes no sense to provide homogenous training for CDFIs. In particular, much of the training that would be provided to the broader CDFI field would be irrelevant to CDVC funds, because we are the only type of CDFI that makes equity investments rather than loans to our customers. The practices and problems of lending and investing institutions are totally different from each other, with virtually no overlap.

We recommend that the Fund revamp its training initiative to provide tailored training for the various types of CDFIs. We also recommend that, rather than being so detailed and prescriptive in the RFP, that the Fund draw on the expertise of the applicant pool by issuing a series of more general requests for proposals to provide training in the various CDFI industry sectors. Part of each proposal submitted should outline what the trainer believes is the most appropriate and important types of training needed by a particular type of CDFI.

(b) The first training products that will be offered by the Capacity-Building Initiative will include affordable housing and business lending, portfolio management, risk assessment, foreclosure prevention, training in CDFI business processes, and assistance with liquidity and capitalization challenges. What other topics should this initiative provide in the future?

First, we would like to point out that every one of the types of training mentioned above is relevant to lenders rather than equity investors. Although some, such as portfolio management, risk assessment, and capitalization, have analogues in the venture capital industry, the content of any training in these areas would be completely different. Training developed in these areas for other types of CDFIs would be totally useless for CDVC funds.

We suggest the following topics be among those provided for CDVC funds: structuring CDVC funds to make effective use of the CDFI Fund, New Markets Tax Credit and other programs; raising capital for CDVC funds; structuring and closing CDVC investments; adding value to

CDVC portfolio companies post-investment; measuring the financial returns and social impacts of CDVC investments; and exiting CDVC investments.

D. CAPITALIZATION ASSISTANCE TO ENHANCE LIQUIDITY

(a) Do CDFIs have a liquidity need?

CDVC funds certainly have issues regarding liquidity, but the solutions to those problems would be quite different from those for lending CDFIs. Creation of sidecar and annex funds might be one solution, but the main answer to the need for liquidity among CDVC funds is to make it easier for them to raise new capital. We, therefore, believe that the most effective use of appropriations to the Fund is for the FA and TA programs.

(b) Would the Liquidity Enhancement Program, as structured by the Statute, help address CDFIs' liquidity needs?

The Liquidity Enhancement Program would be irrelevant to CDVC funds. We believe that, to the extent Congress is willing to provide additional resources to the Fund, they should be used for the core FA and TA programs.

(c) Should the restrictions related to the award cap and/or matching funds be removed as a means to create larger impacts?

We do not support removal of the caps for the LEP program. This would siphon off vital resources from the core FA and TA programs.

(e) Are there other program ideas better suited to providing liquidity for CDFIs?

As noted above, a program to provide debt leverage, analogous to the SBA's SBIC program, would be very useful for CDVC funds. For the program to be effective in raising substantial funds for the industry, existing caps should be lifted and the Fund should develop a capacity to commit to awards up front, conditioned on future capital raising as a match.

E. NATIVE INITIATIVES

We defer to the CDFI Coalition's comments.

F. BANK ENTERPRISE AWARDS (BEA)

We defer to the CDFI Coalition's comments.

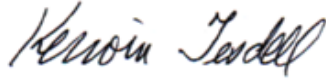
G. SMALL BUSINESS CAPITAL ENHANCEMENT PROGRAM

We agree with the CDFI Coalition's comments, believing that another debt program not tied to CDFIs would not be the best use of the Fund's resources.

H. GENERAL COMMENTS

We thank the Fund for giving us the opportunity to comment on its programs. We appreciate your openness to feedback and suggestions, and look forward to working with you in the future.

Sincerely yours,

A handwritten signature in dark ink, reading "Kerwin Tesdell". The signature is written in a cursive, flowing style with a large initial 'K'.

Kerwin Tesdell